

Auditing Procedures Report

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Issued under Public Act 2 of 1968, as amended.

Unit Name	CHARLEVOIX TOWNSHIP HOS	County	CHARLEVOIX	Type	HOSPITAL FINANCE	MuniCode	15-9-000
Opinion Date	Feb 18, 2008	Audit Submitted	Jun 16, 2008	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 337,127.00
General Fund Expenditure:	\$ 337,127.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 0.00
Governmental Activities Long-Term Debt (see instructions):	\$ 7,934,590.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	HUGH	Last Name	MASON	Ten Digit License Number	1101008161		
CPA Street Address	110 PARK AVENUE	City	CHARLEVOIX	State MI	Zip Code 49720	Telephone	+1 (231) 547-4911
CPA Firm Name	MASON & KAMMERMANN	Unit's Street Address	110 PARK AVENUE	City	CHARLEVOIX	Zip Code	49720

CHARLEVOIX TOWNSHIP HOSPITAL FINANCE AUTHORITY

CHARLEVOIX, MICHIGAN

FINANCIAL STATEMENTS

AND OTHER FINANCIAL INFORMATION

for the year ended December 31, 2007

MASON & KAMMERMANN, P.C.
110 PARK AVENUE
CHARLEVOIX, MICHIGAN 49720

Charlevoix Township Hospital Finance Authority

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MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

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Telephone (231) 547-4911
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INDEPENDENT AUDITOR'S REPORT

February 18, 2008

Board of Trustees
Charlevoix Township Hospital Finance Authority
Charlevoix, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Charlevoix Township Hospital Finance Authority of Charlevoix, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Charlevoix Township Hospital Finance Authority as of December 31, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mason & Kammermann PC". The signature is written in a cursive, flowing style.

Mason & Kammermann, P.C.
Certified Public Accountants

Charlevoix Township Hospital Finance Authority

Management's Discussion & Analysis February 18, 2008

Overview of the Basic Financial Statements

The Charlevoix Township Hospital Finance Authority's (Authority) basic financial statements include a Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows. These are all reported using the accrual basis of accounting.

Financial Statements

The Statement of Net Assets presents the Authority's assets and liabilities, with the difference reported as net assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the most recent fiscal year.

The Statement of Cash Flows presents cash flows from operations, financing and investing activities. Additionally, non-cash transactions that have an effect on the Authority's financial position are also presented.

Notes to the Financial Statements

The notes provide additional information, which is essential to a full understanding of the data provided in the financial statements.

Financial Analysis

The table below summarizes the Authority's net assets as of December 31, 2007 and 2006:

Charlevoix Township Hospital Finance Authority December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current	\$ 841,257	\$ 812,615
Other	<u>7,093,333</u>	<u>7,962,966</u>
Total assets	7,934,590	8,775,581
Liabilities		
Current portion of bonds payable	841,257	812,615
Bonds payable net of current portion	<u>7,093,333</u>	<u>7,962,966</u>
Total liabilities	7,934,590	8,775,581
Net Assets		
Restricted for debt service	<u>\$ -</u>	<u>\$ -</u>

Charlevoix Township Hospital Finance Authority

Management's Discussion & Analysis

February 18, 2008

At the end of the fiscal year, the Authority is reporting a zero balance for net assets restricted for debt service.

The results for the Authority as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets, which is summarized below:

Charlevoix Township Hospital Finance Authority For The Year Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Revenues	\$ 337,127	\$ 430,160
Expenses	<u>(337,127)</u>	<u>(430,160)</u>
Excess of revenues over expenses	-	-
Net assets - beginning of year	<u>-</u>	<u>-</u>
Net assets - end of year	<u>\$ -</u>	<u>\$ -</u>

As shown above, the current year balance was zero. The Authority relies on loan payments from the Hospital and Nursing Home to make the required bond payments. The Authority earns interest on these payments from the Nursing Home and Hospital until the bond payments are actually made. The Hospital is able to consider the interest retained by the Authority in determining its next required loan payment.

Economic Factors

The Charlevoix Township Hospital Finance Authority was incorporated for the purpose of acquiring, constructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes. Currently, the Authority has two loans outstanding with Charlevoix Nursing Home and Charlevoix Area Hospital related to the Series 1993 and 2001 Bonds as explained in the notes to the financial statements. The Hospital and Nursing Home have been making loan payments on a timely basis. The expectation is that these timely payments will continue to be made and the related bonds will be retired as intended.

Charlevoix Township Hospital Finance Authority

Statement of Net Assets December 31, 2007

ASSETS

CURRENT ASSETS:

Current portion of loans receivable:

Charlevoix Nursing Home Corporation	\$ 172,082
Charlevoix Area Hospital	<u>669,175</u>

Total current assets 841,257

OTHER ASSETS:

Loans receivable (Note D):

Charlevoix Nursing Home Corporation	\$ 808,363
Charlevoix Area Hospital	<u>7,126,227</u>

Total loans receivable 7,934,590

Less: portion due within one year (841,257)

Total loans receivable long term 7,093,333

Total assets \$ 7,934,590

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES,

Current portion of long-term debt due within one year:

Charlevoix Nursing Home Corporation	\$ 172,082
Charlevoix Area Hospital	<u>669,175</u>

Total current liabilities 841,257

LONG-TERM DEBT:

Bonds payable:

Charlevoix Nursing Home Corporation (Notes B and E)	\$ 808,363
Charlevoix Area Hospital (Notes C and F)	<u>7,126,227</u>

Total bonds payable 7,934,590

Less: portion due within one year (841,257)

Total long-term debt 7,093,333

Total liabilities 7,934,590

NET ASSETS

Total liabilities and net assets \$ 7,934,590

The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Statement of Revenues, Expenditures and Changes in Fund Balances For the year ended December 31, 2007

REVENUES:

Payments received from Nursing Home to defray Series 1993 Bond interest expense	\$ 57,504
Payments received from Hospital to defray Series 2001 Bond interest expense	<u>279,623</u>
Total revenues	337,127

EXPENSES:

Bond interest expenses:	
Charlevoix Nursing Home Corporation	\$ 57,504
Charlevoix Area Hospital	<u>279,623</u>
Total bond interest expenses	<u>337,127</u>
Change in net assets	-

NET ASSETS, Beginning of year	<u>-</u>
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NET ASSETS, End of year	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Statement of Cash Flows For the year ended December 31, 2007

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Principal received on loans receivable	\$ 840,992
Reduction of long-term debt	<u>(840,992)</u>

Net cash provided by capital and related financing activities	-
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CASH AND CASH EQUIVALENTS, Beginning of year	<u>-</u>
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CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ -</u></u>
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There were no cash flows from operating activities as shown by the following reconciliation:

Change in net assets	\$ -
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Adjustments to reconcile excess of revenues
over expenses to net cash from operating
activities:

Interest on loans receivable (reflected as capital and related financing activities)	337,127
Bond interest expenses (reflected as capital and related financing activities)	<u>(337,127)</u>

Net cash flows provided by operating activities	<u><u>\$ -</u></u>
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The accompanying notes are a part of the financial statements.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2007

Note A – Summary of Significant Accounting Policies

The Charlevoix Township Hospital Finance Authority, a governmental finance authority, was created as a corporate instrumentality in 1993 by Charlevoix Township of Charlevoix County under the provisions of the Hospital Finance Authority Act, Act 38, Public Acts of Michigan, 1969, as amended. The Authority was incorporated for the purpose of acquiring, reconstructing, remodeling, enlarging, repairing, owning and leasing health care facilities. It was also incorporated to finance or refinance these activities and to lend money to a hospital for similar purposes.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

- a. Loans receivable are carried at face value.
- b. The outstanding bonds payable are recorded as liabilities.
- c. Interest income is recorded when received. Interest expense associated with the bonds is recorded when cash is disbursed.

Note B – Bond Payable – Charlevoix Nursing Home Corporation

The Limited Obligation Revenue Bond (Charlevoix Nursing Home Corporation) principal and interest payments are due on the first day of each month in an amount sufficient to fully amortize the principal balance by June 1, 2012.

Under terms of the Loan Agreement between the Authority, Charlevoix Nursing Home Corporation and Fifth Third Bank of Petoskey, the Nursing Home has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

As of January 3, 2005, the rate of interest was changed to equal sixty-eight percent of the bondholder's current prime rate.

The Nursing Home has agreed to make such payments from its income available for debt service. Generally, such income includes the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items. In addition, the Nursing Home has agreed to maintain its tax exempt status, continue to operate as a nursing home, to keep the nursing home facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2007

Note C – Bond Payable – Charlevoix Area Hospital – Series 2001

The Limited Obligation Hospital Revenue and Refunding Bond, (Charlevoix Area Hospital Project), Series 2001 principal and interest are payable on the thirteenth day of each month until November 13, 2016 when the remaining principal and interest balance shall be due.

Under terms of the Loan Agreement between the Authority, Charlevoix Area Hospital and Citizens Bank of Charlevoix, Michigan, the Hospital has agreed to pay to the Bank at specified times amounts adequate to pay all debt service costs associated with the bond issue.

The Hospital has agreed to make such payments from its income available for debt service. Such income includes generally the excess of revenue, including investment income and gifts not restricted by donors, over expenses excluding depreciation, amortization, interest expense and certain extraordinary items.

In addition the Hospital has agreed to maintain its tax-exempt status, continue to operate as a hospital, to keep the hospital facilities in good repair, and to limit incurrence of additional debt to specific amounts under certain conditions as defined in the agreement.

The bond is not a general obligation of the Charlevoix Township Hospital Finance Authority. Further, it is not a debt of the Township of Charlevoix, nor has the Township pledged its full faith and credit for payment of the bond. The bond agreement is written with an interest rate of 4.46 percent per annum through November 12, 2011. At that time, the rate shall be adjusted to equal 98 percent of the then current yield on U.S. Treasury Securities with five years remaining until maturity.

Each monthly installment of principal shall be calculated as that amount which would be payable for that numbered installment under a one hundred sixty five (165) month amortization schedule of even monthly payments comprising principal and interest, applying the Tax Exempt Rate in effect as provided herein (for payments due on the thirteenth day of each month through and including November 12, 2007 such amount shall be \$81,119.60); provided that upon the adjustment of the Tax Exempt Rate as provided herein on November 13, 2011, the schedule of level monthly payments of principal and interest shall be recalculated based upon the principal amount of the Note then outstanding, the adjusted Tax Exempt Rate and the number of remaining months to the Maturity Date. Therefore, the amount of principal to be redeemed for the years ended December 31, 2008 through February 12, 2016 cannot be determined at this time.

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2007

Note D – Loans Receivable and Payments Received Under the Bond

Payments required by the Nursing Home and the Hospital include both principal and interest. Only the portion of the payments attributed to principal is applied to reduce the balance of loans receivable.

Payments by the Nursing Home on the bonds for principal and interest are due on the first day of each month, and the Hospital's payments are due on the thirteenth day of each month.

Note E – Schedule of Indebtedness – Charlevoix Nursing Home Corporation

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Annual Maturity</u>	<u>Outstanding at December 31, 2007</u>
Limited obligation revenue bond (Charlevoix Nursing Home Corporation) Dated June 1, 1993	\$ 2,400,000	4.93	2008 2009 2010 2011 2012	\$ 172,082 177,286 186,226 195,617 <u>77,152</u> <u>\$ 808,363</u>

Charlevoix Township Hospital Finance Authority

Notes to Financial Statements For Year Ended December 31, 2007

Note F – Schedule of Indebtedness – Charlevoix Area Hospital

	<u>Amount of Issue</u>	<u>Interest Rate</u>	<u>Annual Maturity</u>	<u>Outstanding at December 31, 2007</u>
Limited obligation revenue bond (Charlevoix Area Hospital) dated November 13, 2001	\$10,000,000	4.46	2008 2009 2010 2011-2016	\$ 669,175 699,637 731,487 <u>5,025,928</u>
				<u>\$ 7,126,227</u>

On November 12, 2011, the rate of interest will be adjusted equal 98 percent of the then current yield of U.S. Treasury Securities with five years remaining until maturity.

The amount of principal to be redeemed for the years ending December 31, 2011 through December 31, 2016 cannot be determined at this time.

MASON & KAMMERMANN, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HUGH E. MASON
VELDA K. KAMMERMANN

110 Park Avenue
Charlevoix, Michigan 49720
Telephone (231) 547-4911
Facsimile (231) 547-5911

February 18, 2008

To the Board of Trustees of
Charlevoix Township Hospital Finance Authority:

We have audited the financial statements of Charlevoix Township Hospital Finance Authority for the year ended December 31, 2007, and have issued our report thereon dated February 18, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 10, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Charlevoix Township Hospital Finance Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charlevoix Township Hospital Finance Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Charlevoix Township Hospital Finance Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Charlevoix Township Hospital Finance Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Charlevoix Township Hospital Finance Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Charlevoix Township Hospital Finance Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Charlevoix Township Hospital Finance Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Trustees and management of Charlevoix Township Hospital Finance Authority and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads "Mason & Kammermann PC". The signature is written in a cursive, flowing style.

Mason & Kammermann, P.C.
Certified Public Accountants